

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE
PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS OF
THE KGATELOPELE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Kgateelopele Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Revenue

7. The municipality did not use tariffs approved by the council and the National Energy Regulator of South Africa in the calculation of service charges of R16 007 399 (2008-09: R17 343 575). I could not evaluate the accuracy of revenue and receivables from service charges, as the municipality incorrectly captured meter readings from the meter reading cards onto the accounting systems. The municipality's records did not permit the application of alternative audit procedures regarding the revenue and receivables.

Receivables

8. I could not assess the reasonability of the provision for bad debts of R2 344 000 (2008-09: R11 799 984) and the corresponding decrease of account receivables, due to an inadequate age analysis. The municipality's records did not permit the application of alternative audit procedures regarding the accounts receivable.
9. According to paragraph 46(a) of IAS 39, loans and receivables must be measured at amortised cost using the effective interest method. Contrary to this requirement, the municipality did not charge interest on outstanding receivables. In addition, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation of accounts receivable amounting to R5 929 071 (2008-09: R4 367 328), due to an inadequate age analysis. The municipality's records did not permit the application of alternative audit procedures regarding the accounts receivable.
10. The existence, valuation and completeness of other debtors amounting to R3 221 049 (2008-09: R2 897 639) could not be confirmed, as insufficient supporting documents were provided. The municipality's records did not permit the application of alternative audit procedures regarding the accounts receivable.

Expenditure

11. Expenditure amounting to R500 291 was misstated, as the municipality incorrectly classified and allocated some expenditure to the wrong category of expense.

Value-added tax (VAT)

12. The municipality did not provide adequate supporting documents for the journals passed in the VAT control account amounting to R9 151 803. Consequently, the VAT receivable balance of R3 736 390 (2009: R6 352 368) as disclosed in note 18 to the financial statements was misstated. I could not determine the effect on revenue and receivable transactions contained in the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding the accounts receivable.

Post-retirement benefit liabilities

13. The entity did not measure and disclose the post-employment benefit liabilities in accordance with paragraph 46 of IAS 19. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness as well as valuation and allocation of the post-retirement benefit liabilities.

Cash flow statement

14. The Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities is required by Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. The repayment of borrowing of R2 526 004 (2009: R315 325), presented in the cash flow statement is incorrectly stated as municipality did not disclose the finance costs, the loan redeemed and loan received separately.

Qualified opinion

15. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Kgatelopele Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

17. The corresponding figures for 30 June 2009 have been restated as a result of the municipality's conversion to GRAP reporting standards as disclosed in note 61 to the financial statements.

Irregular expenditure

18. As disclosed in note 50 to the financial statements, irregular expenditure of R180 299 was incurred, as a supply chain management process had not been followed.

Fruitless and wasteful expenditure

19. As disclosed in note 50 to the financial statements, fruitless and wasteful expenditure of R1 036 was incurred, as the municipality paid interest on overdue accounts.

Material losses or impairments

20. As disclosed in note 60 to the financial statements, material losses of R3 275 422 were incurred, as the municipality did not implement adequate control measures to curb water and electricity losses.

Additional matter

21. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

22. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary information set out in appendices A to F is presented as additional information and has not been audited. Accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. In terms of the PAA and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), the Municipal Planning Management and Performance Regulations, the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and the Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), and financial management (internal control).

Predetermined objectives

Non-compliance with regulatory requirements

24. I could not conduct the audit of performance against predetermined objectives, as the municipality did not prepare the annual performance report as required in terms of section 46 of the MSA.
25. In contravention of sections 26(a-i), 36, 38 and 41 of the MSA, the municipality did not implement a performance management system or prepare quarterly and annual performance reports or a financial plan with budget projections covering at least the next three years.
26. Contrary to section 41(1)(a) of the MSA, the integrated development plan did not set performance targets with regard to each development priority and objective.
27. Contrary to sections 7, 8 and 14(2) of the Municipal Planning Management and Performance Regulations, the municipality did not adopt a performance management system or implement a performance audit committee.

Compliance with laws and regulations

Municipal Finance Management Act

Non-adherence to requirements

28. Contrary to the requirements of section 65(2)(e), the municipality did not pay all amounts owing by the municipality to suppliers within 30 days from receipt of the invoice.
29. Contrary to section 165(3), the internal audit unit did not fully fulfil its functions.
30. Contrary to section 166, the audit committee was not operational throughout the year and did not fully fulfil its responsibilities.
31. Contrary to section 172, no mid-year performance evaluation was performed by the municipality to assess the performance of the municipality during the first half of the financial year.
32. Contrary to section 62(1)(c)(ii), the municipality did not perform a risk assessment during the year under review.
33. Contrary to section 126, the accounting officer did not prepare the financial statements within two months after the end of the financial year, and submit them to the Auditor-General.
34. Contrary to section 52(d), the mayor did not submit a report to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days of the end of each quarter.
35. Contrary to section 21(1)(b), the municipality did not prepare a time schedule for the preparation of the budget process during the current financial year.
36. Contrary to section 71(1)(a-f), the accounting officer did not submit the monthly budget reports by no later than 10 working days after the end of each month to the mayor and the relevant provincial treasury.
37. Contrary to section 53(1)(c)(ii), the mayor did not approve the service delivery and budget implementation plan within 28 days after the approval of the budget.
38. Contrary to section 75, the municipality did not place all the required information relating to the municipality on the website of the municipality.

Division of Revenue Act

39. Contrary to section 15, the municipality did not by 30 May 2009 submit an infrastructure performance framework to the National Treasury and to the transferring national officer.

INTERNAL CONTROL

40. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, DoRA, the Municipal Planning Management and Performance Regulations, the MSA and the Municipal Structures Act, but not for the purpose of expressing an opinion on the effectiveness of internal control.
41. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

42. Management did not adequately implement appropriate corrective actions for the control deficiencies identified in the prior year.
43. Management did not develop and implement policies and procedures for some of the business processes at the municipality.
44. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme or objective level, as well as for purposes of taking corrective action.

Financial and performance management

45. General information technology controls were not designed to maintain the integrity of the information systems and the security of the data.
46. Management did not implement appropriate control measures to ensure that all revenue due to the municipality was collected.
47. Material misstatements were identified in the financial statements for which there were no appropriate controls to confirm the accuracy and completeness of the reported amounts.

Governance**Risk management**

48. Management did not conduct adequate risk-mitigation processes to ensure that the prior year's errors were addressed.

Internal audit

49. The municipality had its own internal audit division. The work of the internal audit division was inadequate for the purposes of the audit, as the internal audit function performed inadequate work. The internal audit plan was not adequately addressed by the internal audit function, as the division was understaffed. The internal audit function of the municipality did thus not fulfil its responsibilities as set out in section 165 of the MFMA.

Audit committee

50. The municipality's audit committee was not operational throughout the year. This resulted in the committee not being able to fulfil its responsibilities as set out in section 166 of the MFMA.

Auditor-General

Kimberley

28 February 2011



Auditing to build public confidence